



Covid-19 and Q2 2020 key considerations



18 June 2020

Agenda

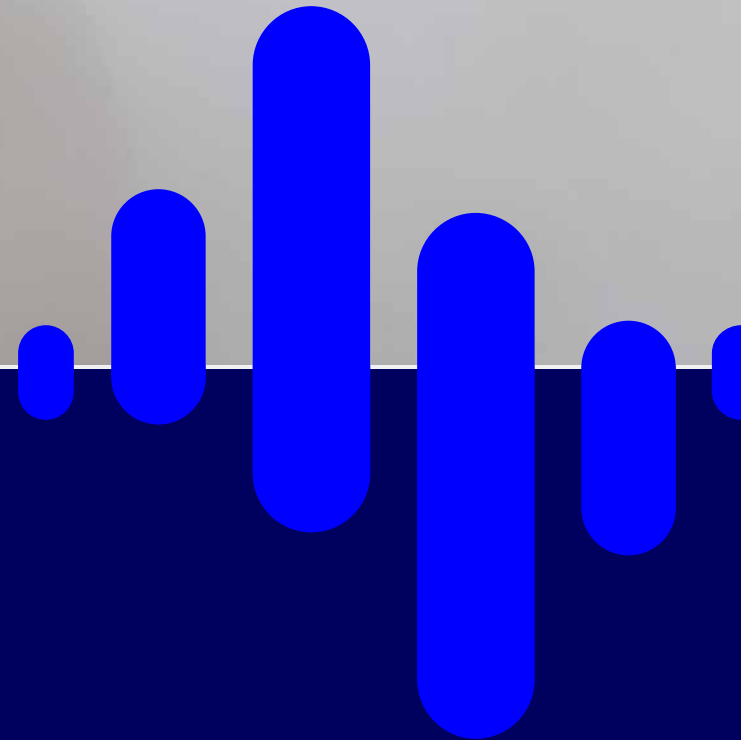
- 1 Pandemiøkonomi *Leif-Rune Husebye Rein (Investeringsdirektør, Nordea)*
- 2 Impairment and key Q2 considerations *Julie Berg, Partner Audit*
- 3 Q2 and the disclosure jigsaw *Julie Berg, Partner Audit*
- 4 COVID-19 and increased fraud risk *Petter Gaarder Amland, Director Forensic Services*



“Pandemiøkonomi”

Leif-Rune Husebye Rein

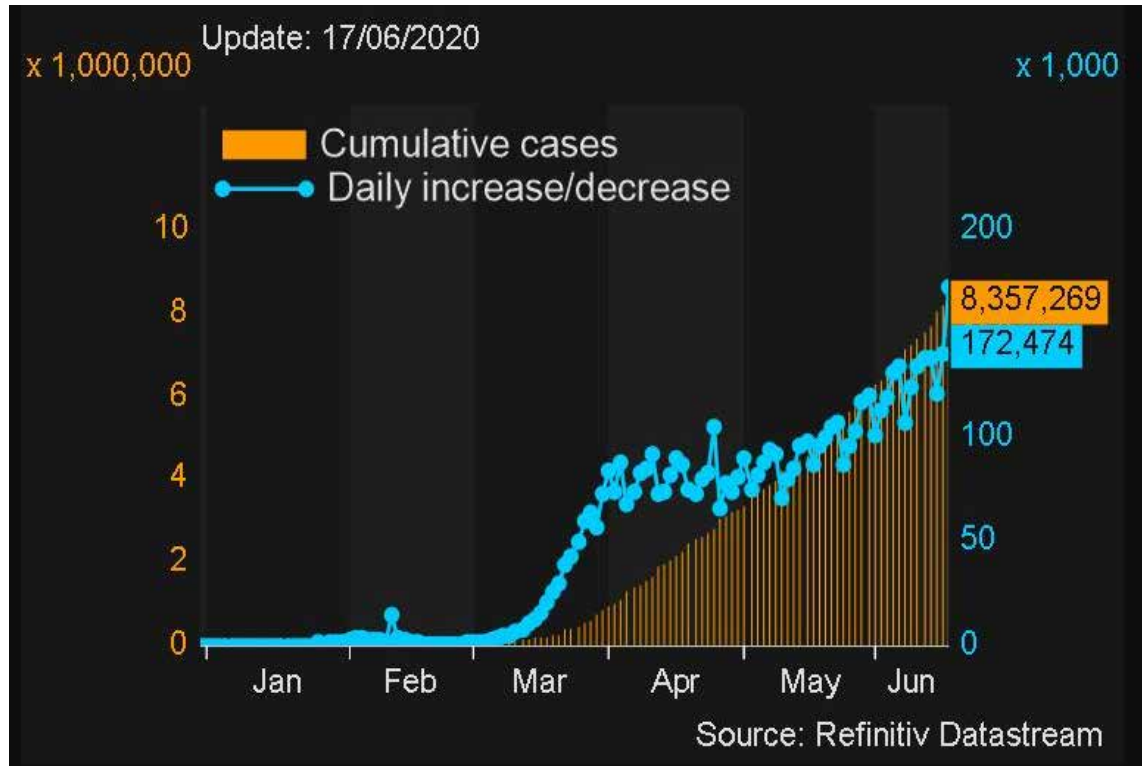
Investeringsdirektør, Nordea Liv



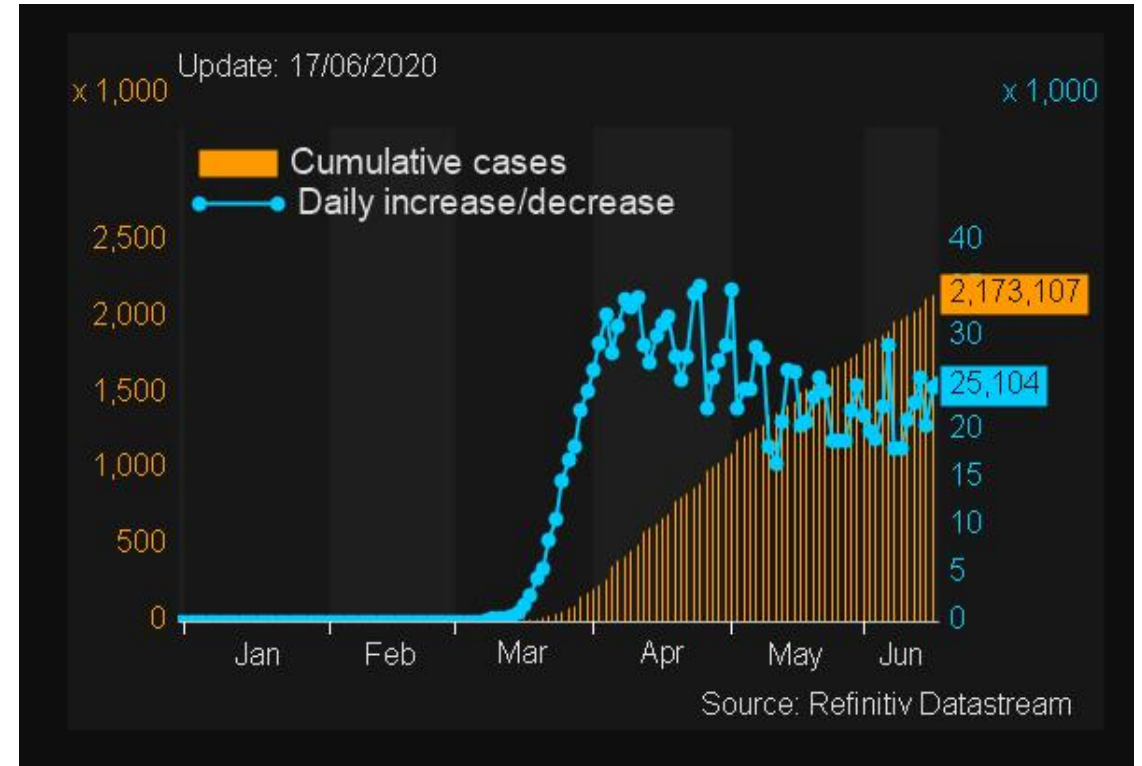
We have therefore made the assessment that COVID-19 can be characterized as a pandemic.

Lyspunkt - økende antall smittede, men i lavere tempo

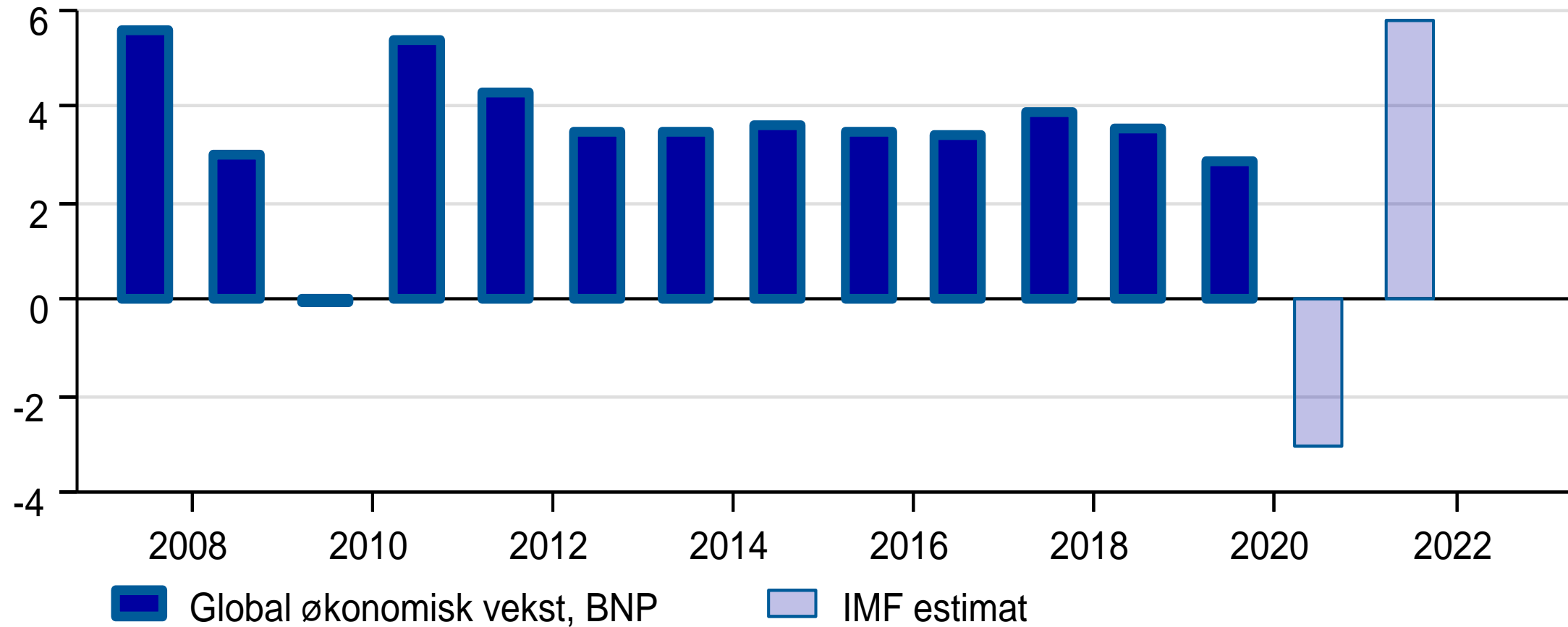
Globalt



USA



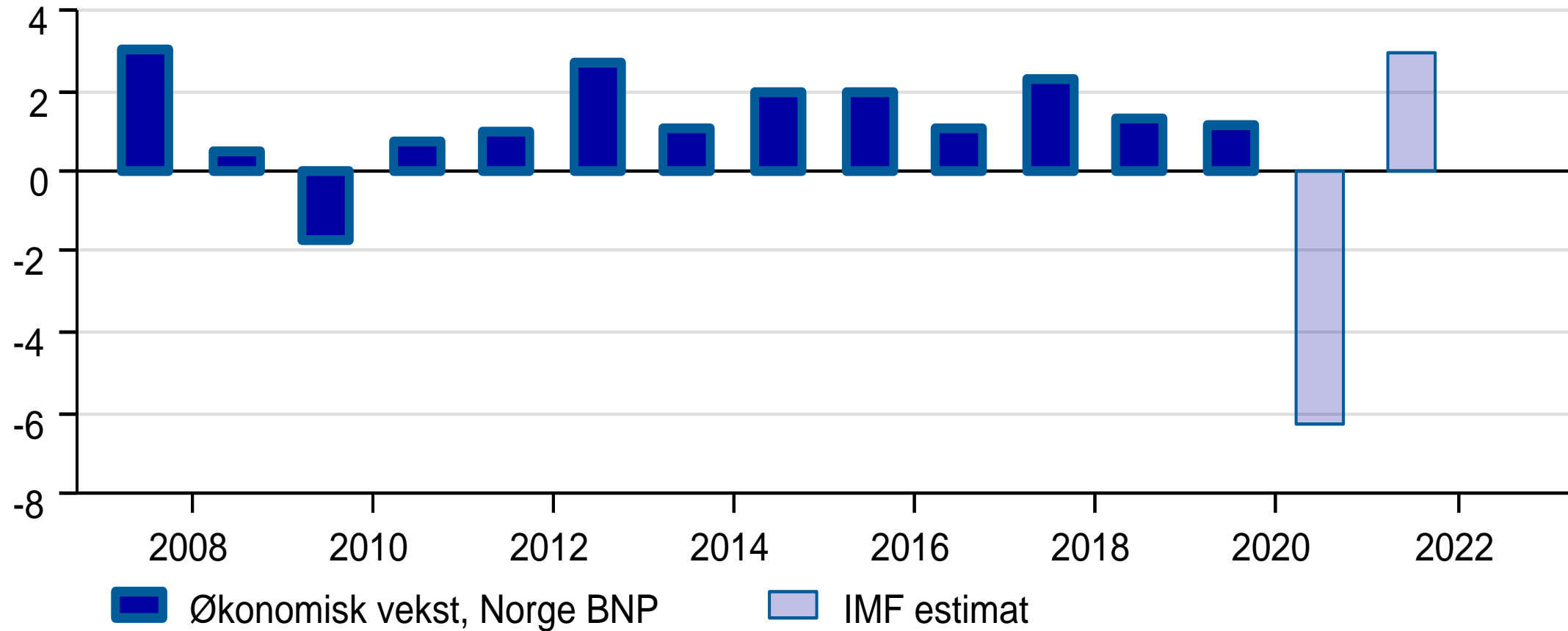
Verste resesjon siden depresjonen på 30'tallet



Kilde: Thomson Reuters

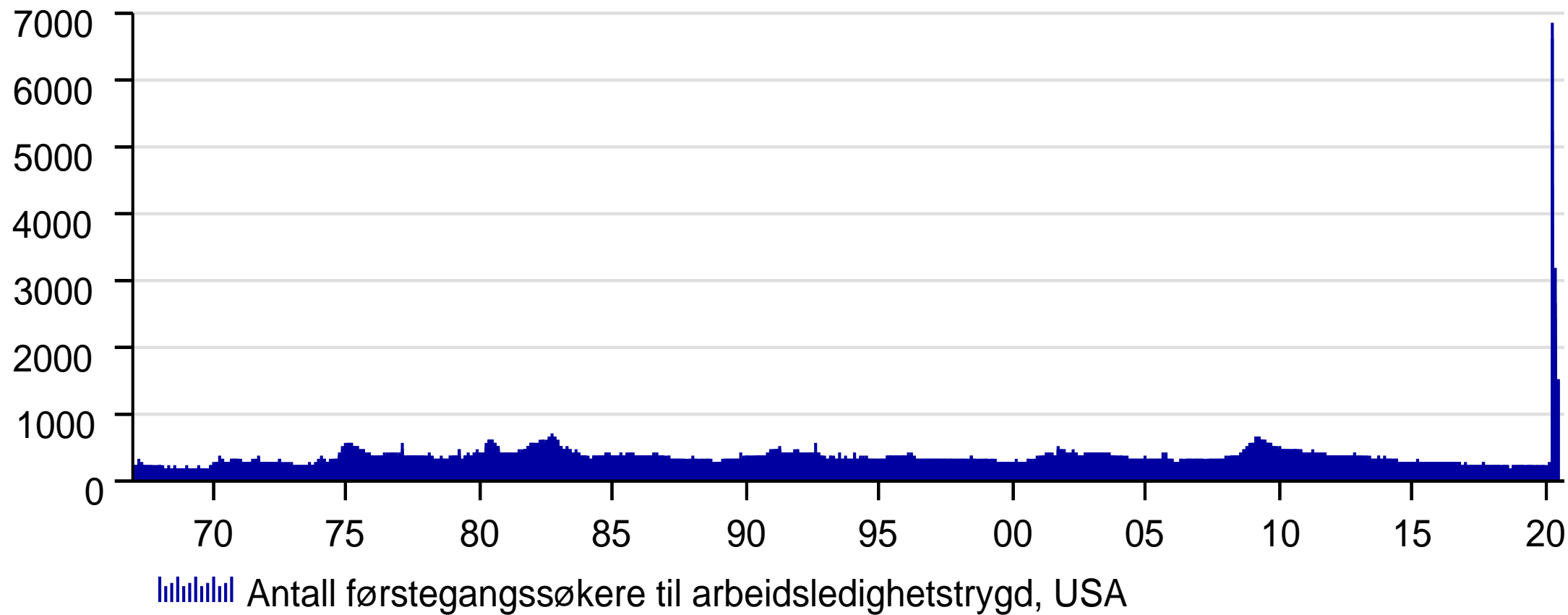


Verste resesjon siden depresjonen på 30'tallet



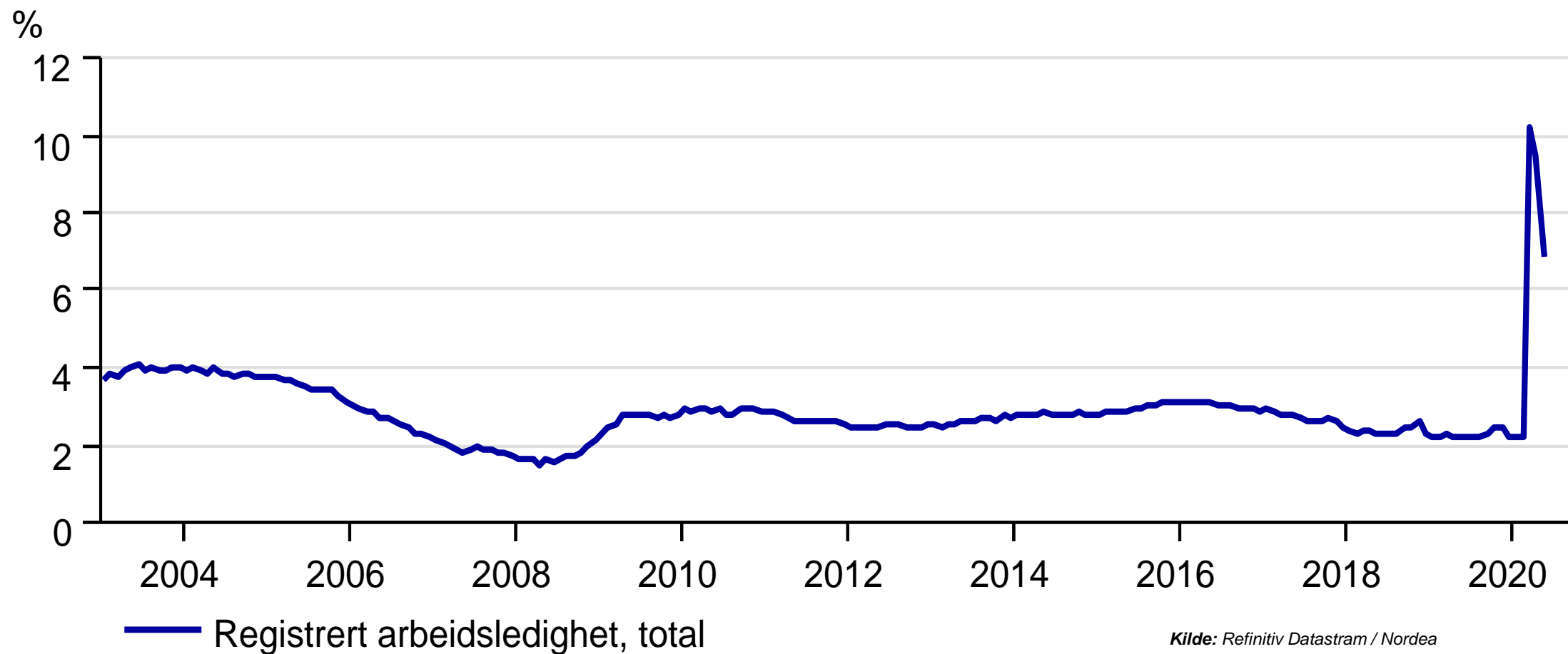
Kilde: Thomson Reuters

Økonomisk aktivitet bråstopper



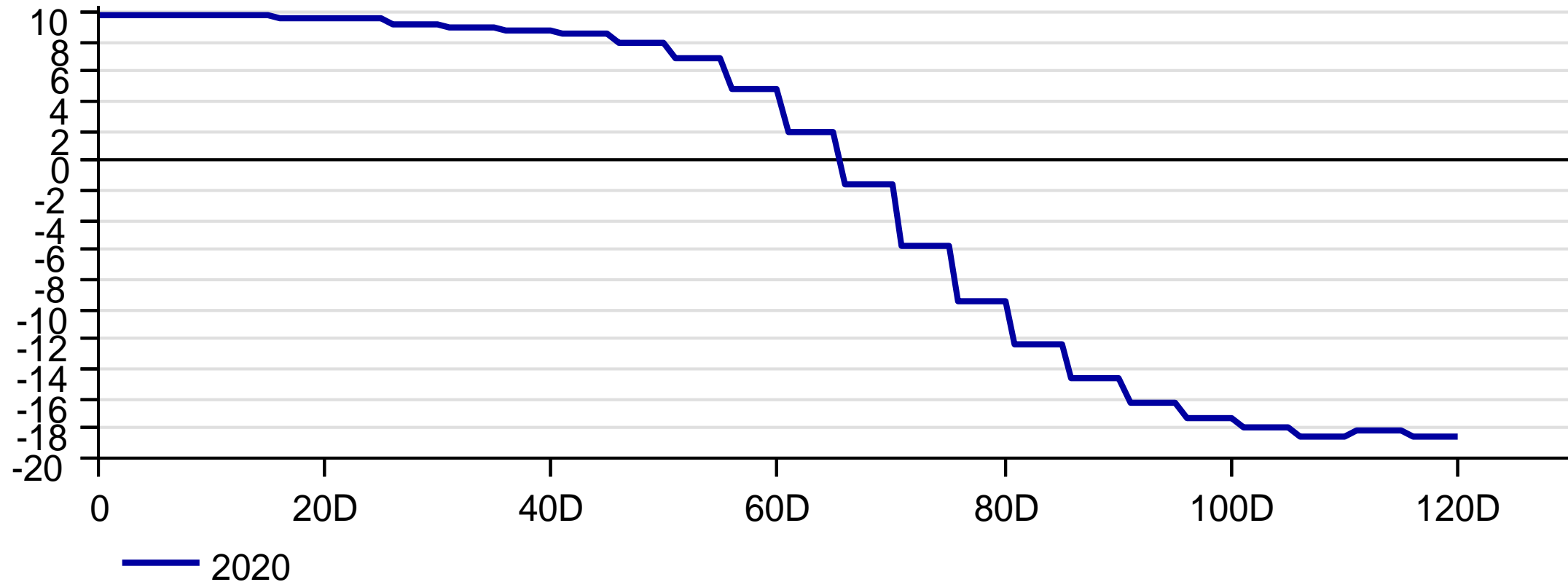


Dette er ikke lystig i Norge heller



Nedstenging av økonomiene senker selskapsinntjeningen dramatisk

Innjeningsvekst, globalt, %-poeng



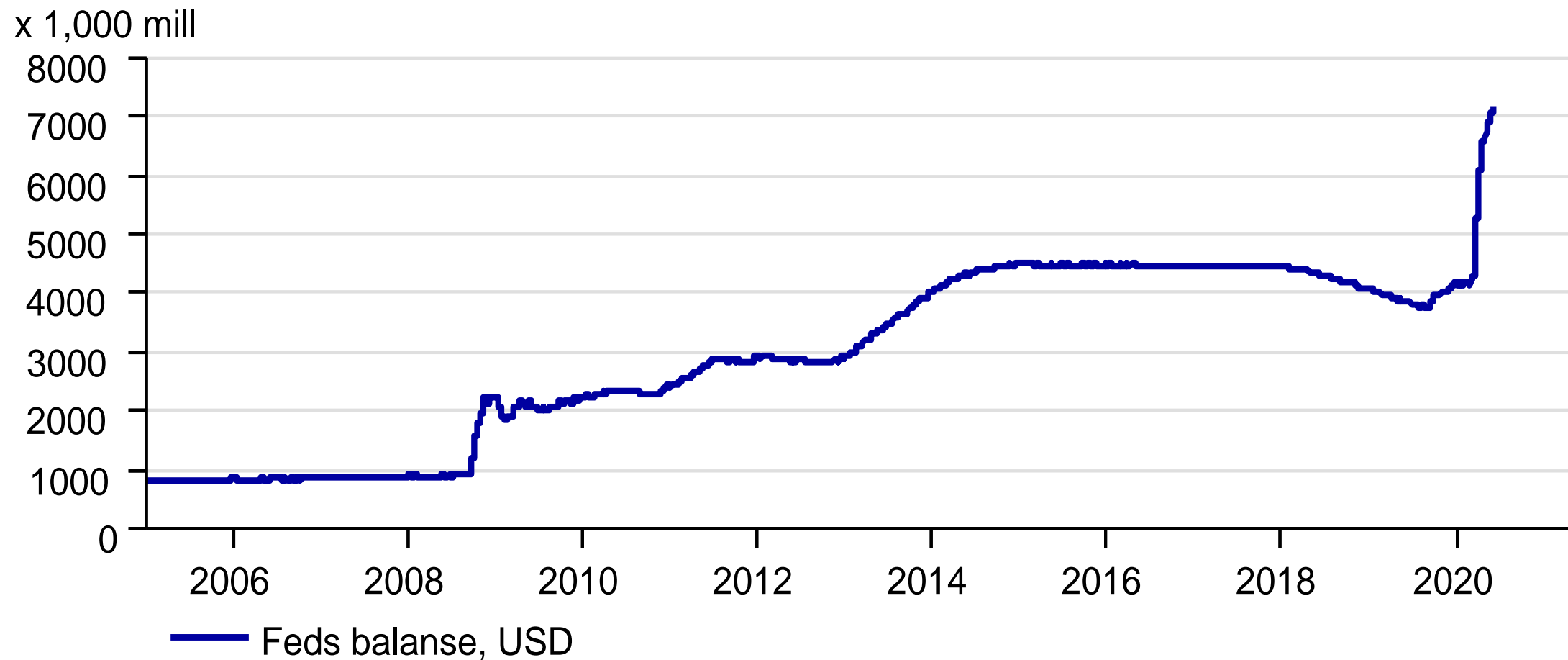
Kilde: Refinitiv

Oljeprisen truffet fra flere hold

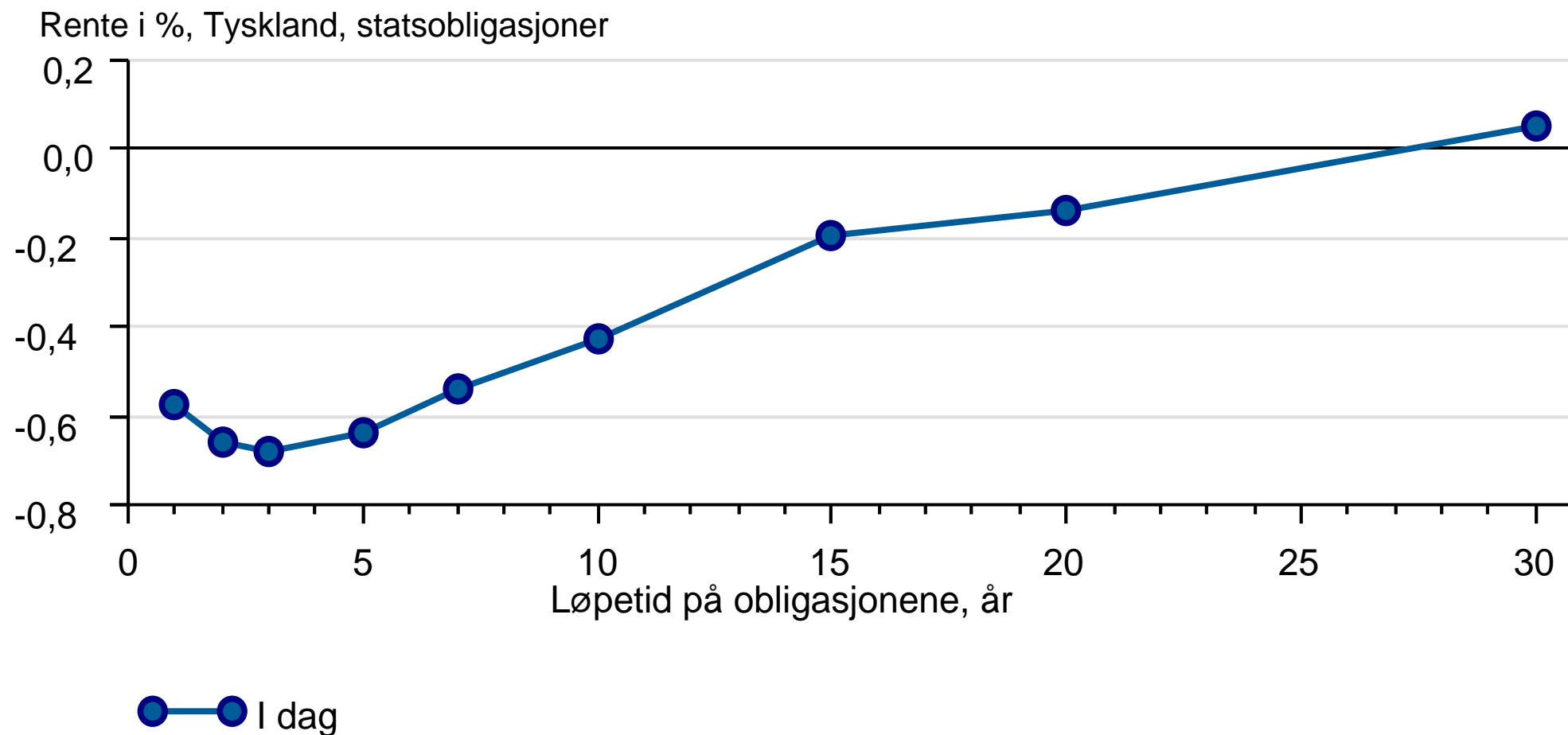


Kilde: Refinitiv Datastram / Nordea

Siden FED annonserte ubegrenset QE (uten sluttdato) den 23 mars, har de kjøpt for \$2,5 tn...



Hva må du **betale** Tyskland for å låne dem pengene dine de neste 30 årene?



Kilde: Thomson Reuters

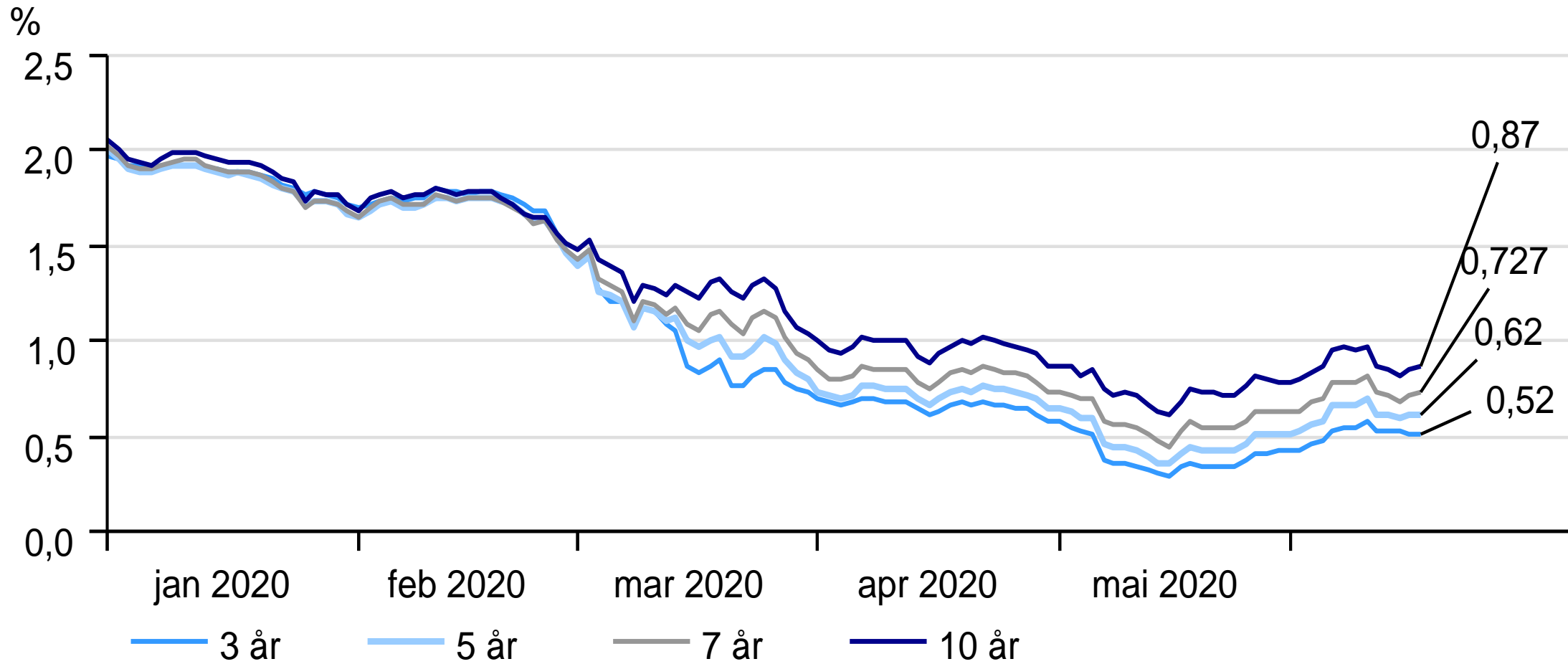
Billigere enn noen gang for amerikanske IG-selskaper å låne penger



Kilde: Refinitiv Datastream / Nordea

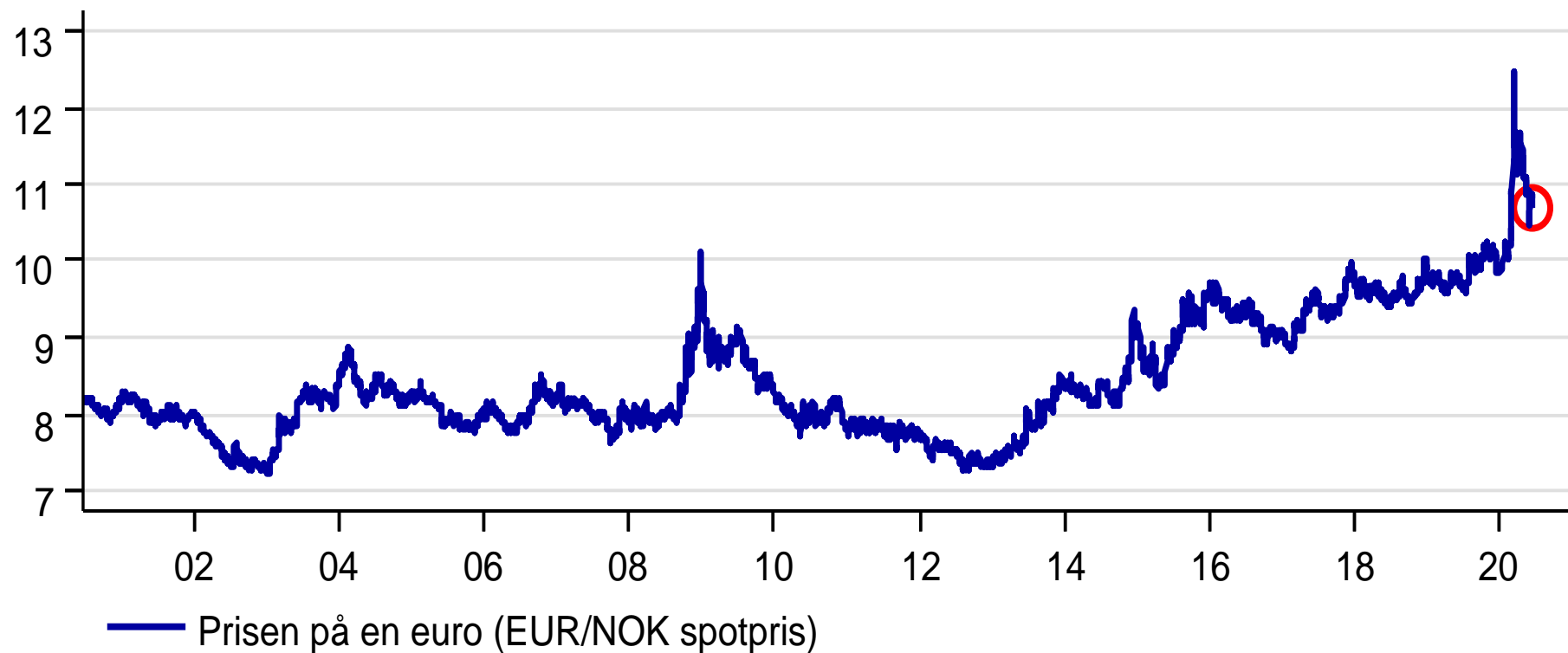


Norske SWAP-renter

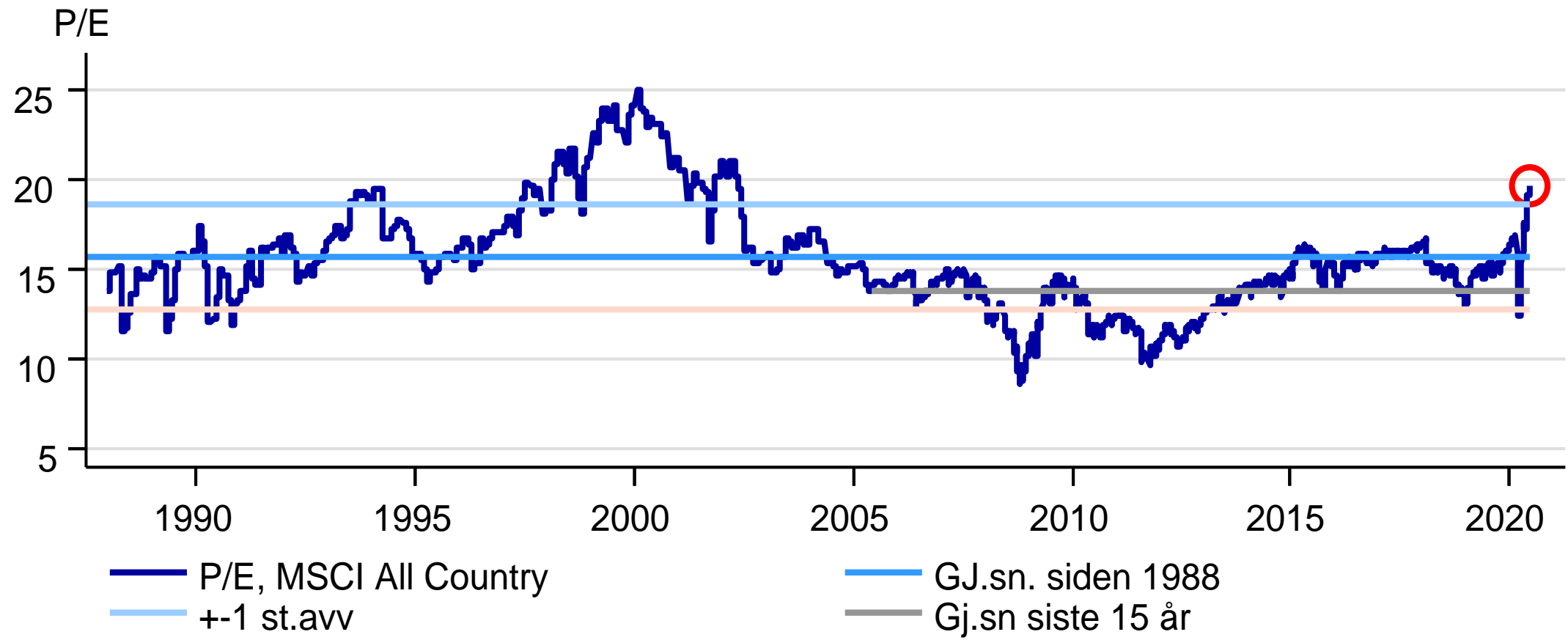


Comeback for kronen

Currencies	YTD	Spot
EURNOK	8,39 %	10,69
USDNOK	8,42 %	9,53
EURUSD	-0,02 %	1,12
USDCNY	1,76 %	7,09
USDJPY	-1,49 %	107,01
GBPEUR	5,98 %	0,90

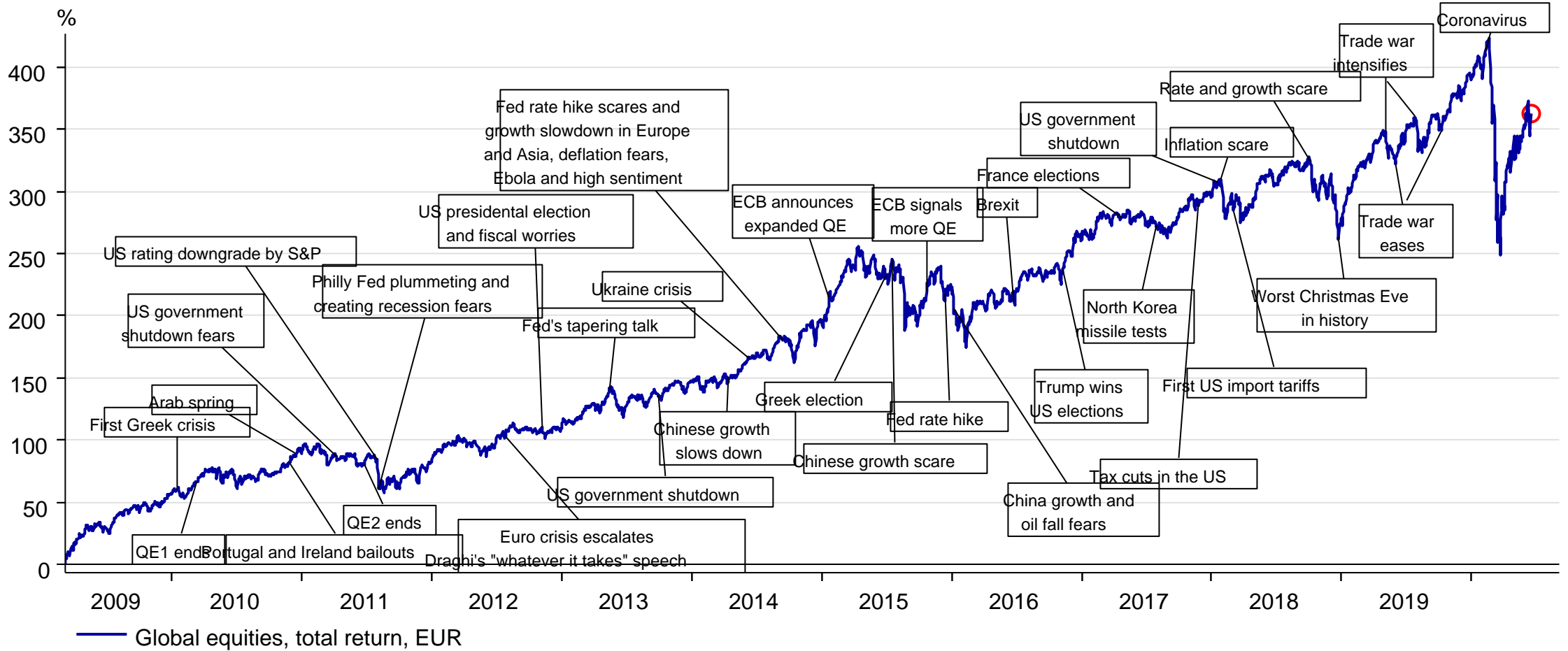


Fra dyrt til billig til dyrt igjen på rekordtid?



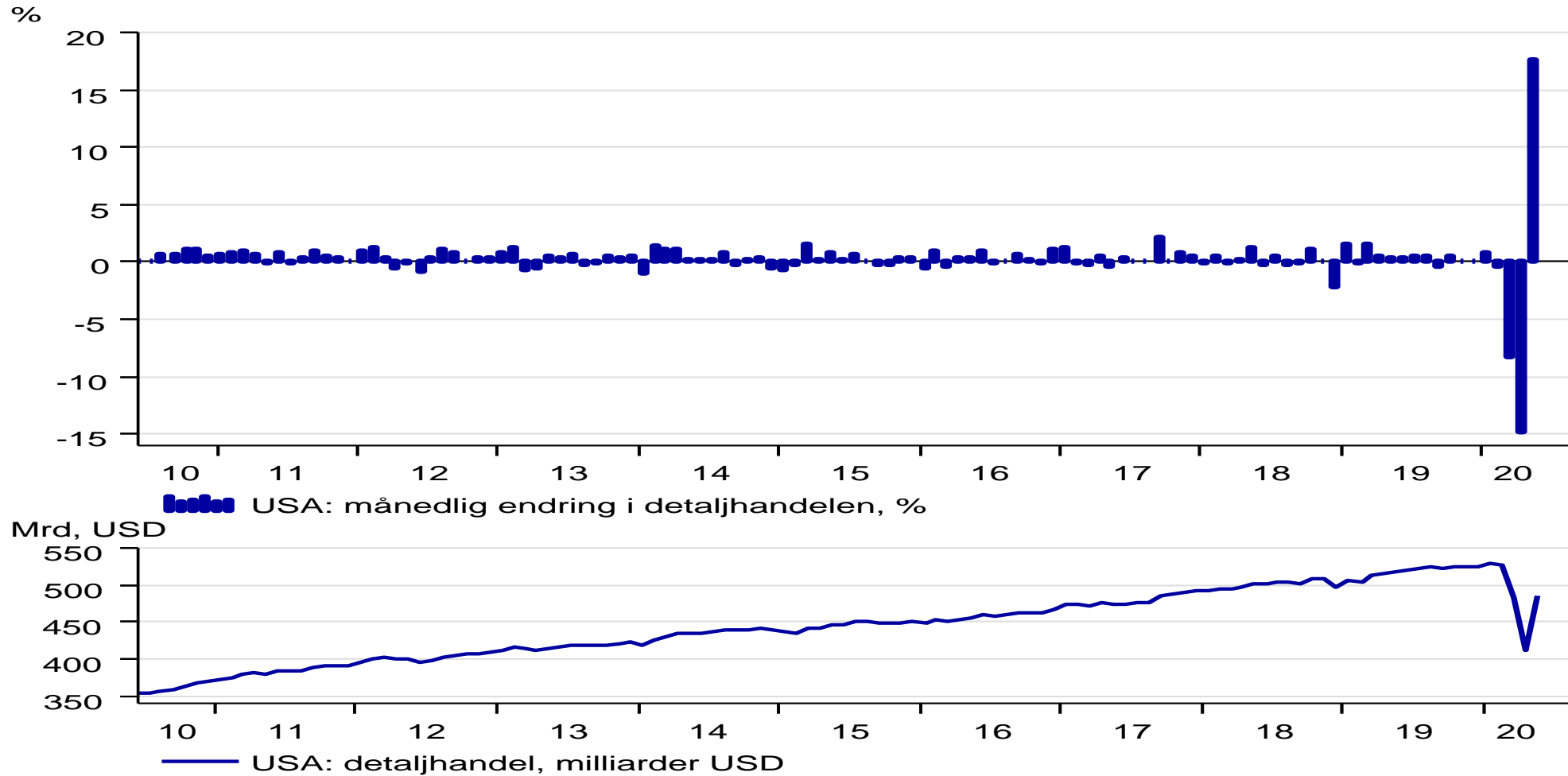
Kilde: Refinitiv Datastream / Nordea

Bare en ny dump i veien?



Kilde: Refinitiv / Nordea

V-formet gjenoppenting?



Kilde: Refinitiv

A photograph of a woman and a young girl standing in a field of purple lavender flowers. Both are wearing flower crowns. The woman is on the right, wearing a white tank top and light-colored shorts, with her arm around the girl. The girl is on the left, wearing a dark blue and white striped jacket, smiling. The background is a soft-focus field of lavender and green foliage.

Vårt formål

**Vi hjelper våre kunder til å ta ansvar for
egen bærekraftig fremtid**

Enkel sparing – trygghet i livet



Impairment and key Q2 considerations

In the current environment there are a number of significant considerations when applying standard accounting rules for impairment tests

1. Is there a trigger event or indicator of impairment?

2. Forecasts must be reassessed in order to reflect the effects of COVID-19

3. Recalculate discount rates

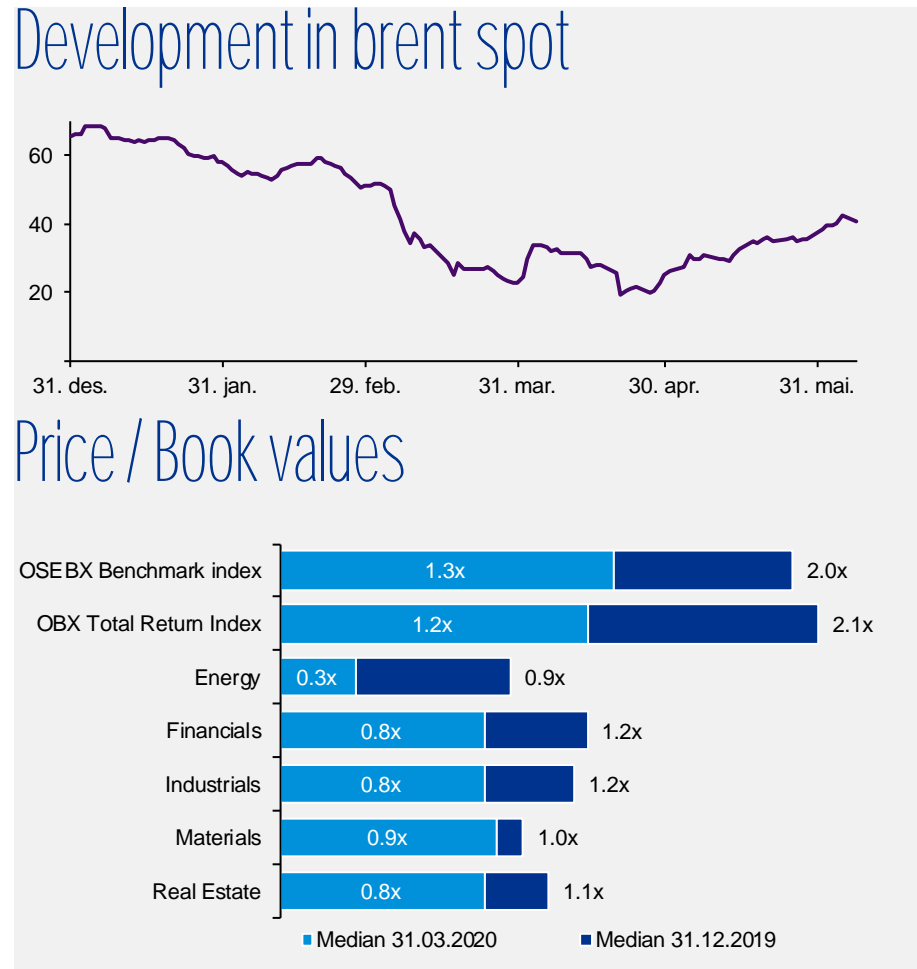
4. Determine the disclosure requirement

1. Is there a triggering event or indicator of impairment?

Issuers should carefully consider the effects of the COVID-19 outbreak which, in ESMA's view, would most likely constitute a strong basis to conclude that one or more of the impairment indicators in IAS 36 have been triggered.

- European Securities and Market Authority ("ESMA")

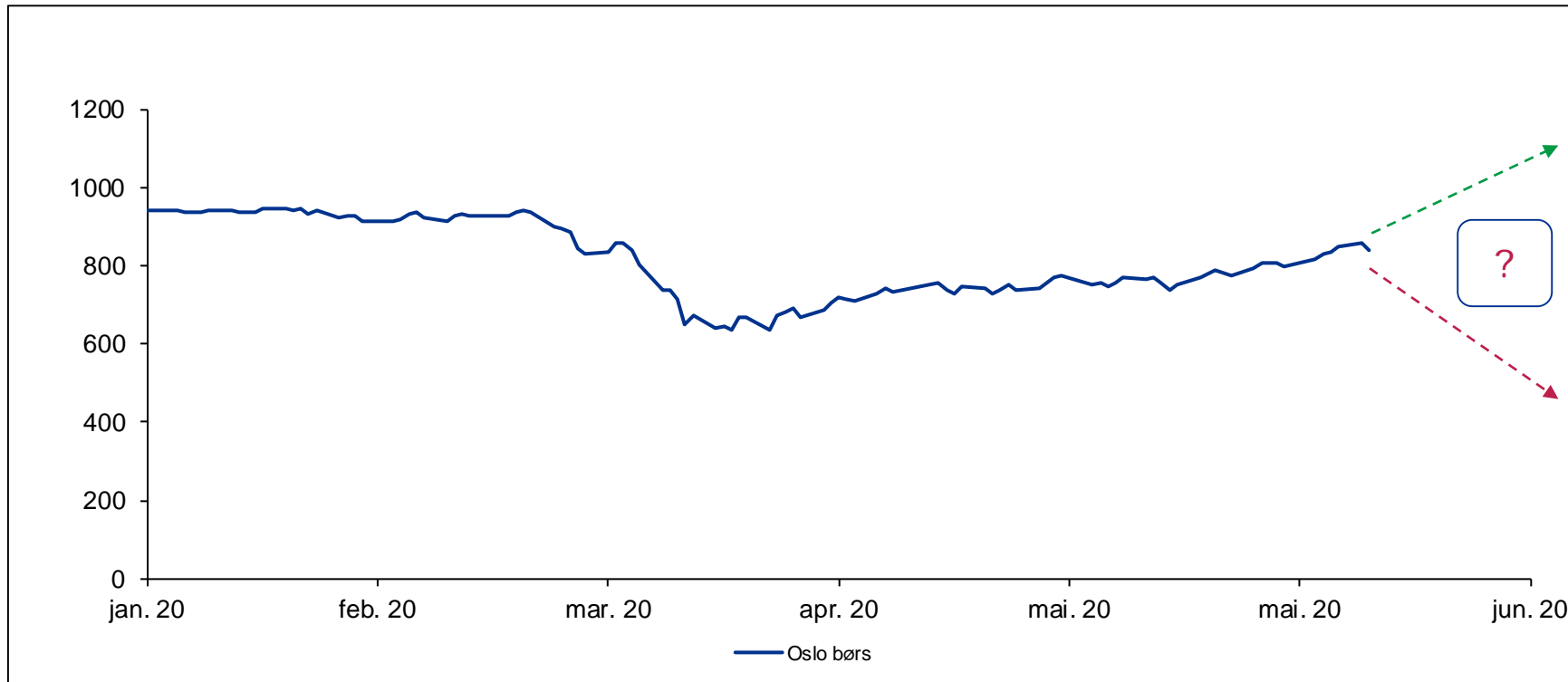
1. Is there a triggering event or indicator of impairment?



The uncertainty related to the impacts of COVID-19 and the oil price shock are likely to trigger impairment for a considerable number of Norwegian companies.

1. Is there a trigger event or indicator of impairment?

How the market will look in Q2 is still uncertain - Recovery of stock markets?



2. Forecasts must be reassessed in order to reflect the effects of COVID-19

The current uncertain environment requires a careful assessment of the cash-flow projections over a relevant horizon. Such projections may require the consideration of multiple scenarios.

- European Securities and Market Authority (“ESMA”)

2. Forecasts must be reassessed in order to reflect the effects of COVID-19

Key considerations:

- Do budgets and cash flow projections reflect the impact of COVID-19?
- Duration and severity of COVID-19 impact?
- The entity's ability to continue as a going concern
- Effects of exchange rates and commodity prices
- Latest view from sector experts, central banks and other international organizations?
- Should cash flows or discount rates, or both be adjusted?
- How do you mitigate the danger of double counting risk adjustments?

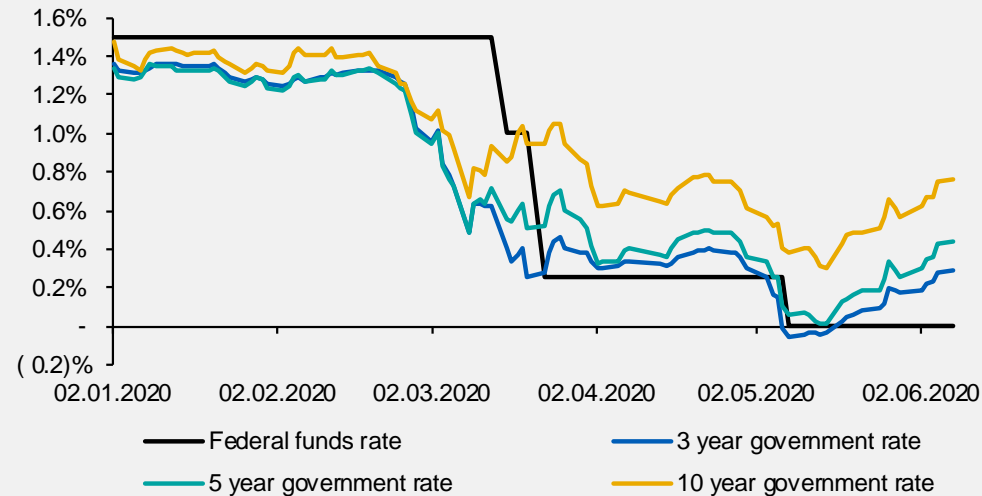
3. Recalculate the discount rate

The discount rates used shall reflect current market assessments of the time value of money and the risks specific to the asset being tested and exclude risks and uncertainties that were already taken into account in the projected cash-flows.

- European Securities and Market Authority ("ESMA")

3. Recalculate the discount rate

Development in Norwegian interest rates



- Risk-free interest rate have seen a decline after the outbreak of COVID-19.
- Reduction in risk free rates may not reduce the discount rate due to
 - increased equity risk premiums
 - beta / volatility increases
 - the creditworthiness of companies are lower.
- The general view is that discount rates are not reduced due to the crisis.

4. Determine the disclosure requirements

ESMA encourages issuers to provide information, also on a quantitative basis, on the significant impacts of the COVID-19 outbreak as part of the explanations of the amounts presented and recognized in the statement of profit or loss in a single note as part of the notes to the financial statements.

- European Securities and Market Authority (“ESMA”)

4. Determine the disclosure requirements

Key considerations:

- Consider enhancing disclosures about major sources of estimation uncertainty in interim and annual reports.
- What scenario information and sensitivities details should be disclosed in respect of the impact from COVID-19?
- Are there CGU specific risks that need to be disclosed?
- Be careful not to blame all pre-existing business issues on COVID-19



The Q2 disclosure jigsaw

ESMA expects entity-specific information describing:



Disclosure considerations

IAS 36 - Impairment

Have you recognised an impairment in the quarter?

Disclose:

- Amount of impairment and events and circumstances leading to impairment
- Discount rate in current and previous impairment test
- Key assumptions to which the impairment model is sensitive

IAS 1 – Presentation of FS

Do you have changes in significant judgements or estimation uncertainty since Annual Report?

Do you have new elements of estimation uncertainty to disclose?

Disclose:

- Assumptions made about future and major sources of estimation uncertainty
- Nature of assets and liabilities subject to estimation uncertainty
- Carrying amount

IAS 34 – Interim FR

IAS 34 focuses on new activities, events, and circumstances and does not duplicate information previously reported.

- Requires explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period

Difficult to avoid?

- **ESMA is requiring COVID-19 entity specific note disclosure describing effects, mitigating actions and future uncertainty**
- **IAS 34 requires issuers to update information if there are significant changes in estimates and judgments**
 - Going concern
 - Impairment risk
 - Expected credit losses
 - Entitlement to government and other funding
 - Other estimates
- Impairment disclosures if impairment recognised including sensitivity analysis

Emphasis on transparent reporting due to period of high economic uncertainty



COVID-19: Increased Fraud Risks?

IFRS Update

18 June 2020

Does COVID-19 feed the Fraud Triangle?



Agenda

01

COVID-19 Fraud
Risks -
Compliance Risk Poll

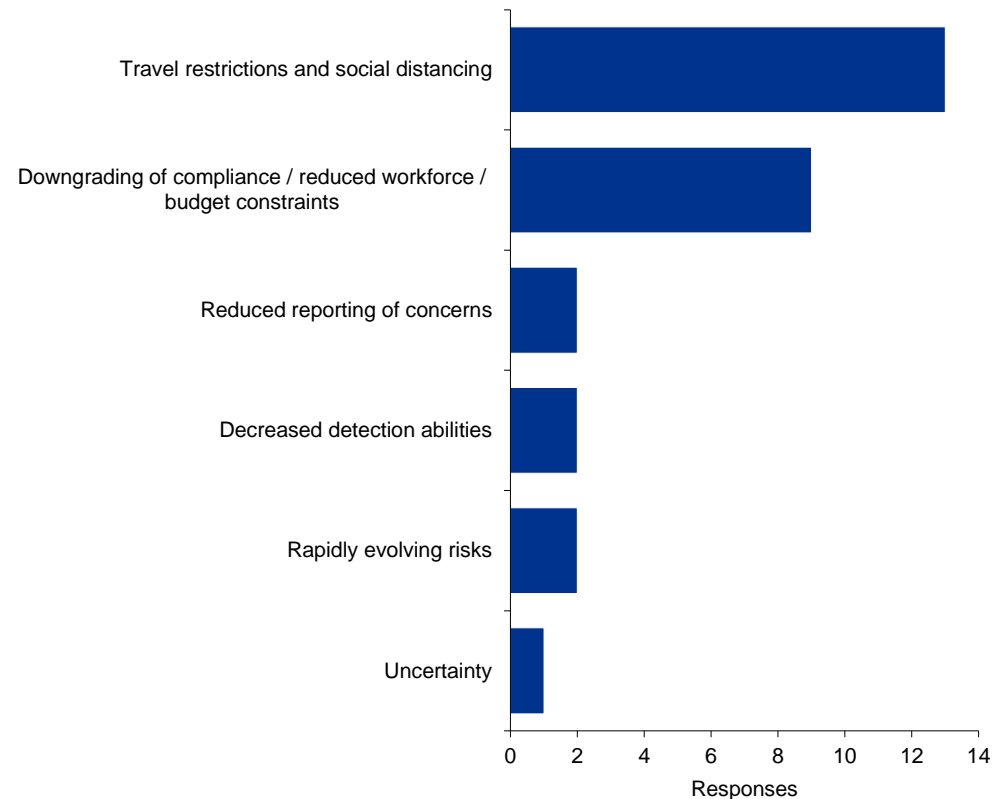
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Real case example



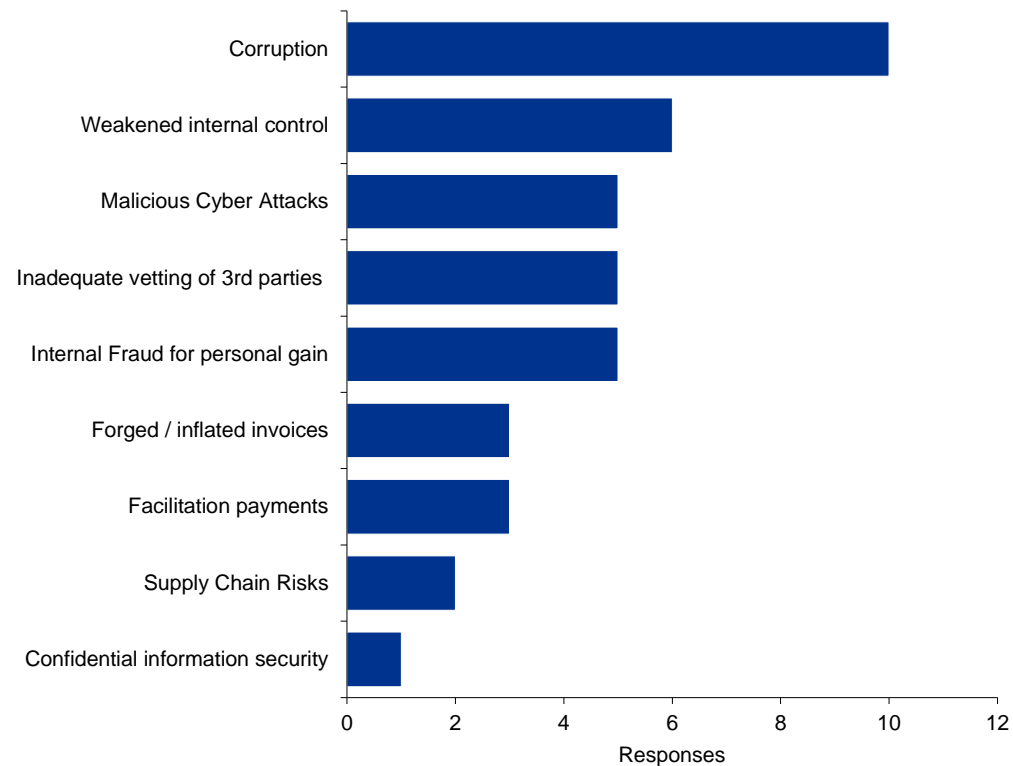
Compliance Risk Poll

What are the top 3 challenges for your Investigation and Compliance Activities during COVID-19?



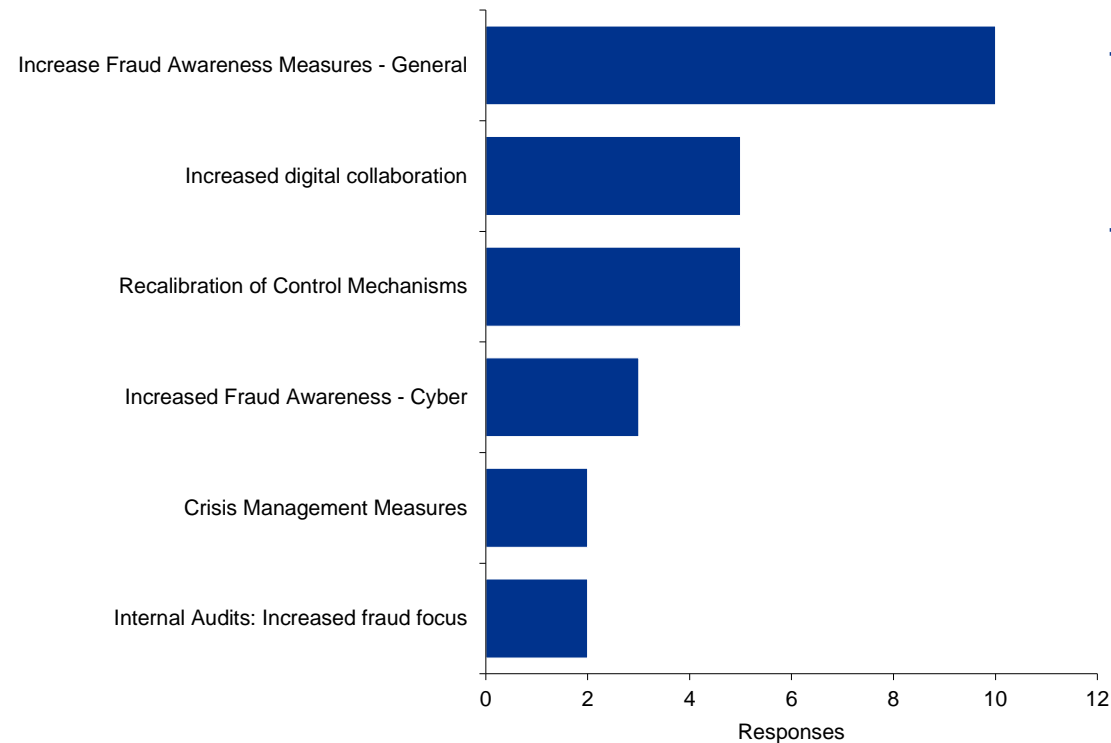
- **Travel restrictions, budget constraints and downgrading of compliance**
 - “Capacity, capacity, capacity”
 - Investigation and internal audits on-site, on-going and planned, have suffered the biggest hit
 - Risk capturing ability has been affected negatively (proactive compliance)
 - Detection ability has been affected negatively (reactive investigation)
 - Compliance is simply outcompeted by business continuity focus
- **Decreasing trend in reporting of concerns through whistle-blower channels and similar**

What are the top 3 fraud risks your organization is facing during COVID-19?



- **Corruption**
 - Sales and Procurement
- **Weakened internal control**
 - Lack of oversight
- **Internal Fraud for Personal Gain**
 - Fraud triangle
- **Facilitation payments**
 - Tightened border controls
- **Supply Chain Risks**
 - Work-related crime (A-krim)

What additional compliance risk mitigation measures are you implementing due to the COVID-19 situation?



- **Increased awareness focus (general and cyber) is clearly the key measure across sectors.**
- **Recalibration of internal control mechanisms**
 - Authorization limits have been reduced or recalibrated
 - Stricter credit controls (payments up front)
 - Adjusted annual plans

Trends within Corporate Compliance and Internal Audit



I know, it is frustrating. Important compliance undertakings have been hampered. We might have to re-think our compliance approach and .
Chief Compliance Officer, Y AS

Seriously, I give up. COVID-19 has apparently made my job irrelevant. My compliance department is just not prioritized.

Chief Compliance Officer, X AS





Real Case Example

Om saken

Bakgrunn

- Revisor gjorde sent mai 2020 styret oppmerksom på mulige irregulariteter i bokføring av fordringer og bankavstemminger
- Innledende undersøkelser indikerte uregelmessige bankoverføringer foretatt av Ansatt X

KPMGs funn / konklusjoner

- Ansatt X med autonom lederrolle og vide bankfullmakter hadde overført NOK 1,01 millioner til sin private konto
- Ansatt X innrømmet forholdet og forklarte sine handlinger med
 - COVID-19 og unntakstilstand
 - Privat gjeld som måtte tilbakebetales
 - Underslåtte midler skulle investeres i kryptovaluta med et ønske om rask gevinst
 - Intensjonen var å «betale alt tilbake»

Konsekvenser og tiltak

- Politianmeldelse
- Forsterket internkontroll og arbeidsdeling samt endrede fullmakter i foretakets utbetalingsprosesser

Avsluttende merknader

- KPMG konkluderte med at handlingene mest sannsynlig er å anse som grovt underslag
- Alle elementene i **Fraud Triangle** er oppfylt
- Er dette en indikator?
 - Ja, vi forventer en økning i tilsvarende hendelser etter COVID-19
 - Handlinger rettferdiggjøres overfor en selv og andre med COVID-19 som bakteppe
 - Denne saken er et «godt» eksempel





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